

11 September 1968

Currency Black Markets in Saigon and Hong Kong

1. The currency black market (free market) in Saigon is a major avenue of escape from the constraints of official Vietnamese foreign exchange regulations. Its existence on a large scale is widely recognized and tolerance for its continuation is tantamount to acceptance by the Vietnamese authorities. There also is black market activity in the Vietnamese piaster in Hong Kong where piasters smuggled out of Vietnam are traded against foreign exchange. While the Hong Kong market is not insignificant, it probably is smaller than the piaster-foreign currency black market in Saigon.

2. Many factors influence the level of black market rates for piasters in Saigon, but their relative importance is difficult to judge. Piaster prices in the Saigon black market depend largely on the Vietnamese people's confidence in their currency, the availability of gold and goods, and the supply of dollars. For example, as inflation became rampant in mid-1966 and rumors of a devaluation of the piaster circulated widely, the value of the piaster dropped sharply (see Table 1).

3. During 1967 the price of the piaster was remarkably stable and possibly somewhat higher than would be expected given the fact that its value was eroded by a 35 percent inflation. The 1967 average monthly price of piasters was 161 piasters per dollar, and 206 piasters per 1/35th ounce of gold (US \$1.00 worth of gold leaf). The availability of gold, which the Vietnamese prefer to any currency, is unknown, but apparently was sufficient during 1967 so that the price did not fluctuate greatly. In addition, the supply of goods, provided by imports, was plentiful, providing the Vietnamese with an attractive alternative use for their piasters. The supply of dollars on the black market is unknown, but because of the increasing number of American troops and civilians entering Vietnam in 1967, it can be presumed that a considerable volume of dollars was exchanged on the black market. The large supply of goods and dollars may have kept the black market value of piasters higher than otherwise would have been the case.

4. The price of piasters in the Hong Kong black market normally corresponds closely to that in Saigon. During 1967 the average monthly price of piasters in Hong Kong was 160 piasters per dollar. Any sharp divergence between the Hong Kong and Saigon prices is believed to be caused by exogenous factors such as large Chinese Communist or US Government purchases concentrated in a brief time period.

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5. Developments in the Saigon and Hong Kong currency black markets during 1968 differed considerably from those of 1967 largely because of events related to the Tet and May-June offensives. Since the beginning of 1968 the value of the piaster in terms of dollars and gold has declined in both the Saigon and Hong Kong black markets (see Table 2). During January to mid-June 1968 the weekly price of piasters fluctuated between 165 and 173 piasters per dollar and averaged 169 piasters per dollar weekly, or only 8 piasters above the 1967 average monthly rate -- actually a remarkable development considering the economic and political uncertainty occasioned by the 1968 offensives. In terms of gold, however, the value of the piaster moved down considerably during this period when the average weekly price of 1/35th ounce of gold was 237 piasters per dollar compared with a 1967 monthly average of 206 piasters. In Hong Kong the weekly price of the piaster fluctuated between 160 and 183 piasters per dollar during January to mid-June and averaged 168 piasters, or 8 piasters above the 1967 average.

6. Commencing in mid-June, the value of the piaster in terms of both dollars and gold began to deteriorate, culminating on 26 August in a rate of 215 piasters per dollar -- the lowest piaster price in terms of dollars ever recorded in Saigon. On 26 August the price of piasters in terms of gold was 298 piasters per dollar, or 8 piasters below the all time high recorded in July 1966. Developments in the Hong Kong market since mid-June generally have followed the trends in the Saigon market except for the fact that the value of the piaster reached its lowest level -- 210 piasters per dollar -- about ten days earlier than in Saigon and then held steady at the slightly higher level of 207 piasters during the following two weeks.

7. Several factors probably have influenced recent price movements. First, the money supply has expanded rapidly -- by about 43 percent -- during 1968, and the populace has been hoarding rather than spending this cash. It is possible that the threat of renewed enemy attacks, continued economic stagnation and uncertainty about the outcome of the Paris peace talks, has now caused dishoarding and increased demand for dollars and gold -- both of which have a more stable value than the piaster and are easily portable. Secondly, it is likely that the supply of gold has been reduced because of disruptions in normal supply channels caused by the 1968 offensive. Finally, continued rumors of devaluation of the piaster may be contributing to the switch from piasters to dollars and gold.

8. Given the lack of precise knowledge on the causes for the recent deterioration of the value of the piaster, it is difficult at this time to forecast developments in the currency black markets during the next few months. Nevertheless, it seems probable that during the next few months the value of piasters will remain at a lower level than the average during the first five and a half months of this year.

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9. If security conditions remain unsettled and the threat of a major offensive against the city continues to be a possibility, business activity probably will not increase and people will continue to be reluctant to buy goods other than necessities. Thus the demand for dollars and/or gold will continue strong and the value of piasters will remain low.

10. If a major destructive offensive occurs, the business community will suffer a further setback and, despite an immediate sharp rise in prices due to interdiction of supply routes, a recession of the type experienced following the Tet and May-June offensives can be expected. In this event, holding piasters would become even less desirable and their value in terms of dollars and gold might fall even further, although it is impossible to say at what point buyers would find dollars and gold too expensive.

11. If the VC launch the so-called third offensive but fail to achieve results similar to those at Tet and during May, it is possible that confidence in the GVN's ability to defend the city would begin to build. The government's war risk insurance program could help to renew business activity and consumers would once again start spending rather than saving. After the experience of the last six months, however, people have become more wary, and a renewal of activity probably would come gradually. In the short run, this renewal would tend to increase confidence in the piaster. With this renewed activity, however, would come increased inflationary pressure -- the growth in demand for goods would outrun the growth of imports and production. In this situation, with the cost of living rising at a fairly steady rate the black market value of the piaster would decline, although probably at a much slower rate, if the experience of 1967 is any indication.

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Table 1

Average Monthly Rates for Piasters in Hong Kong and Saigon, 1965-67
(Piasters Per US \$)

	<u>1965*</u>		<u>1966</u>		<u>1967</u>	
	<u>Hong Kong</u>	<u>Saigon</u>	<u>Hong Kong</u>	<u>Saigon</u>	<u>Hong Kong</u>	<u>Saigon</u>
January	129	136	159	169	176	174
February	128	139	159	170	177	174
March	130	138	158	168	165	172
April	129	141	154	171	162	160
May	130	142	157	180	157	155
June	130	140	170	194	157	156
July	132	135	177	206	149	155
August	119	132	176	175	142	150
September	128	150	171	168	145	151
October	147	160	NA	168	148	152
November	152	165	NA	172	156	158
December	156	169	170	172	174	165

*Data for January-August are end of month data.

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Table 2

Average Monthly Rates for Piasters
in Hong Kong and Saigon, 1968
(Piasters Per US \$)

	<u>Hong Kong</u>	<u>Saigon</u>
January	165	168
February	166	183
March	162	168
April	168	168
May	172	171
June	178	171
July	178	177
August	198	200

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